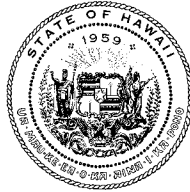


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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

August 5, 2009

The Honorable Linda Lingle
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Lingle:

The Department of Taxation recently released tax revenue statistics for the fiscal year (FY) ending June 30, 2009. Although the Council's most recent forecast reflected a decrease of 9.0% to \$4,224 million for FY 2009, actual General Fund tax revenues for FY 2009 instead declined by 9.5% to \$4,203 million. This additional decline in actual FY 2009 General Fund tax revenues has a cascading effect on the Council's revenue forecasts for the following years.

Based on the Council's forecasted General Fund tax revenue growth rates for FY 2010 through FY 2015, and pursuant to a motion passed at the Council's meeting on May 28, 2009, I am submitting revisions to the General Fund tax revenue amounts previously forecasted reported to you on June 1, 2009. The actual General Fund tax revenue for FY 2009 and the revised forecasts of State General Fund tax revenue amounts for FY 2010 through FY 2015 are listed in the table below:

Fiscal Year	Thousands of Dollars	% Growth From Previous Year
2009 (actual)	\$4,203,081	-9.5%
2010	\$4,203,081	0.0%
2011	\$4,438,559	5.6%
2012	\$4,670,610	5.2%
2013	\$4,952,100	6.0%
2014	\$5,254,289	6.1%
2015	\$5,511,956	4.9%

Line-item detail of State General Fund tax revenues by revenue category are presented in the attached table. These detailed forecasts are based on the Council's forecast for total state General

The Honorable Linda Lingle

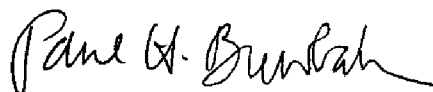
August 5, 2009

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Fund tax revenues and the econometric model currently used by the Tax Research and Planning Office.

Please advise us if we can be of further assistance or if we can answer any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul H. Brewbaker". The signature is fluid and cursive, with the first name "Paul" being the most prominent.

PAUL H. BREWBAKER, Ph. D.
Chair, Council on Revenues

Attachment

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2010 to FY 2015

(in thousands of dollars)

TYPE OF TAX	ACTUAL			ESTIMATED					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
General Excise & Use 2/, 3/	\$2,555,762	\$2,618,787	\$2,420,251	\$2,411,322	\$2,509,425	\$2,577,259	\$2,714,821	\$2,861,127	\$2,951,667
Income - Individual 5/	1,559,690	1,544,307	1,338,052	1,321,802	1,381,037	1,467,873	1,543,228	1,619,979	1,705,511
Income - Corporation	81,834	85,081	53,522	37,876	34,674	43,611	53,275	66,335	80,741
Public Service Company	124,017	127,481	126,069	124,492	123,984	124,337	125,194	126,455	128,269
Insurance Premiums	92,196	95,742	93,720	99,379	138,910	192,618	243,690	296,788	350,902
Tobacco & Licenses 6/	84,219	83,443	76,955	99,455	105,713	108,641	108,938	111,912	114,965
Liquor & Permits	46,034	45,620	47,242	47,751	48,725	49,698	50,750	51,805	52,875
Banks & Other Fin Corps	16,599	18,212	26,075	11,809	12,403	18,790	22,164	24,996	26,956
Conveyance 4/	7,033	6,513	6,817	10,930	9,660	8,416	4,933	3,711	2,500
Miscellaneous *	1,120	751	812	531	534	539	543	546	549
Transient Accommodation Tax 1/	17,076	15,935	13,566	37,734	73,494	78,828	84,564	90,635	97,021
NET TOTAL	\$4,585,580	\$4,641,872	\$4,203,081	\$4,203,081	\$4,438,559	\$4,670,610	\$4,952,100	\$5,254,289	\$5,511,956
GROWTH RATE	3.4%	1.2%	-9.5%	0.0%	5.6%	5.2%	6.0%	6.1%	4.9%

Notes:

1/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to the tourism special fund and 5.3% to the TAT trust fund (Act 250, SLH 2002); 17.3% to the convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to the tourism special fund to 34.2% and repeals the TAT trust fund. Effective on July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to \$33 million. Effective on July 1, 2006. Act 61, SLH 2009, temporarily imposes an additional 1.0% TAT for the period 7/1/2009 through 6/30/2010, and an additional 2.0% TAT for the period 7/1/2010 through 6/30/15. These additional amounts will be deposited into the general fund.

2/ FY 2012 excludes \$40 million, due to June 30, 2012 falling on a weekend. FY 2014 includes \$40 million, estimated spillover from June 30, 2013 falling on weekend.

3/ Act 209, SLH 2007, exempts gross income received from the sale of alcohol fuel from the general excise tax. Effective on July 1, 2007, provided that the exemption repeals on June 30, 2009. Act 40, SLH 2009, reduces the interest rate on overpayments due to taxpayers from 2/3 of 1% to 1/3 of 1% per month or fraction thereof.

4/ Due to the expiration of Act 222, SLH 2007, on June 30, 2008, the amount of conveyance tax deposited into the General Fund increased from 15% to 35%. Act 59, SLH 2009, increased the conveyance tax rates for properties valued \$1 million or more.

5/ Act 60, SLH 2009, temporarily increases the standard deduction and personal exemption amounts for taxable years beginning after 12/31/10, and also temporarily creates new 9%, 10%, and 11% tax brackets for certain individuals with high taxable income beginning with taxable years beginning after 12/31/08. Act 60, SLH 2009, will be automatically repealed on December 31, 2015.

6/ Act 58, SLH 2009, taxes "little cigars" in the same manner as cigarettes beginning 9/30/09; increases the tax on tobacco products other than cigarettes, little cigars, and cigars from 40% to 70% beginning 9/30/09; imposes a 50% tax on cigars. Act 56, SLH 2009, increases the cigarette tax from 11¢ to 13¢ on 7/1/09, from 12¢ to 14¢ on 7/1/10, and from 13¢ to 15¢ on 7/1/11; and also amends the dates on which changes in the allocation of cigarette tax revenues changes.

* Includes inheritance and estate tax.